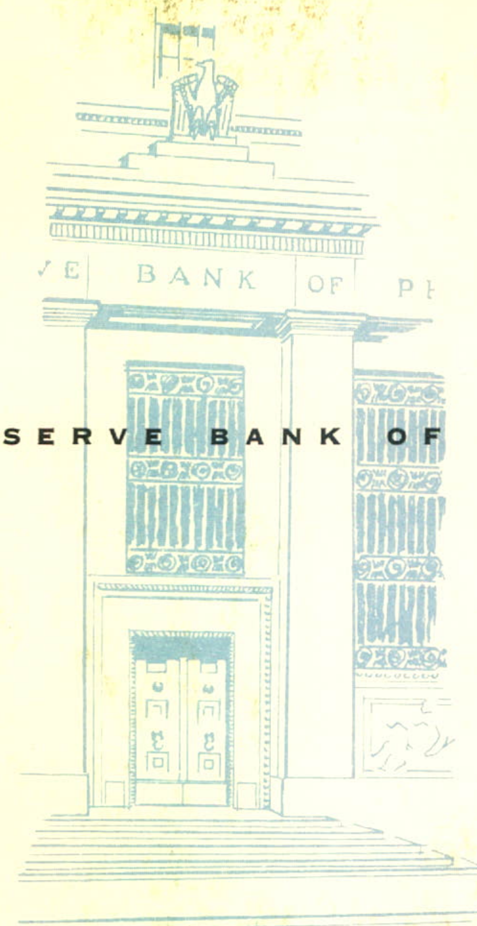

FEDERAL RESERVE BANK OF PHILADELPHIA

JANUARY

1958

1957: end of an aftermath?

operations of the bank: 1957 vs. 1941

ANNUAL REPORT issue of the business review

FEDERAL RESERVE BANK OF PHILADELPHIA

Because some feel that the forces driving the economy during the postwar period have weakened, the main article in this Annual Report analyzes the question whether, in fact, 1957 can be considered "the last postwar year."

The second article describes changes in operations of this Bank since the beginning of World War II, a period that happens to coincide with my tenure as President of the Federal Reserve Bank of Philadelphia.

PRESIDENT

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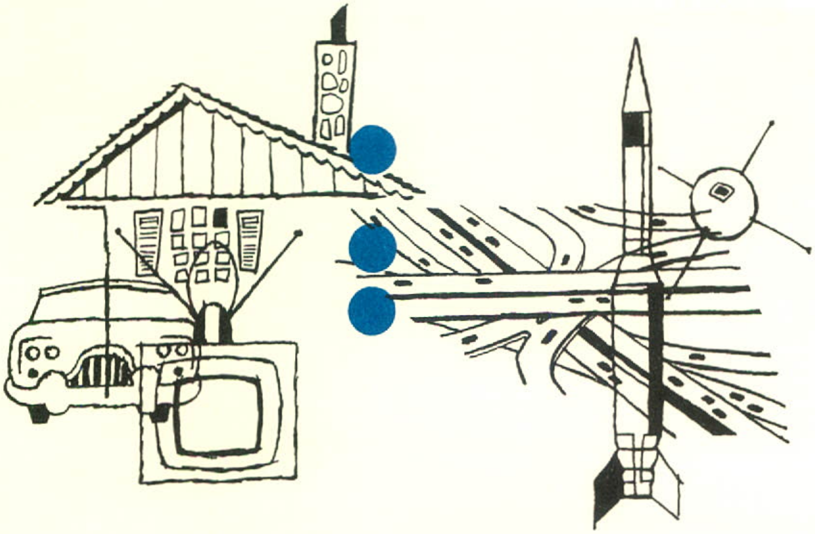


1957: END OF AN AFTERMATH?

Facts and figures underlie every sound analysis. But as any analyst will tell you, facts and figures are fugitive. In a sense you get out of them what you put into them. You see what you want to see, permit yourself to see, or are able to see.

At present, some are taking a look at the facts and figures and concluding that an old era—the postwar era—is dying, and the next era is taking shape.

Of course, not everyone agrees that the postwar era is over. And they could very well be right. Certainly, it was easier to determine that the "jazz age" ended in 1929, and the "war years" in 1946.

These turning points are easily distinguishable. They were punctuated by history-making events—the stock market crash, and the end of World War II.

Not always, however, do eras begin and end with such a crash and bang. Sometimes the change creeps up on historians of the moment. For example even now it's difficult to say when the Industrial Revolution began.

It might be, therefore, that in 1957 one era ended and a new one began. It is possible that the forces, moods, and aspirations which shaped the postwar years have burned out or modified themselves to be replaced by new or remolded ones.

If it is difficult to agree that an era ended in 1957 or thereabout, it is virtually impossible to say what the next era will be like. Two analysts looking at the same facts and figures can come to widely divergent opinions.

There is a growing body of opinion, however, that says the next few years will form an "inter-boom era" of slower growth and higher unemployment. This thesis rests on a careful examination and analysis of the postwar era and the forces that made it. It is based, too, on an analysis of the forces to be operating in the years ahead.

How accurate a forecast might the interboom thesis form? To answer this, even partially, it is necessary to discuss many related questions. Such as: what are the forces, moods, and aspirations that have shaped the years since 1946? How have they influenced the postwar period? Which have burned out—been modified? What new and modified forces will influence the next era?

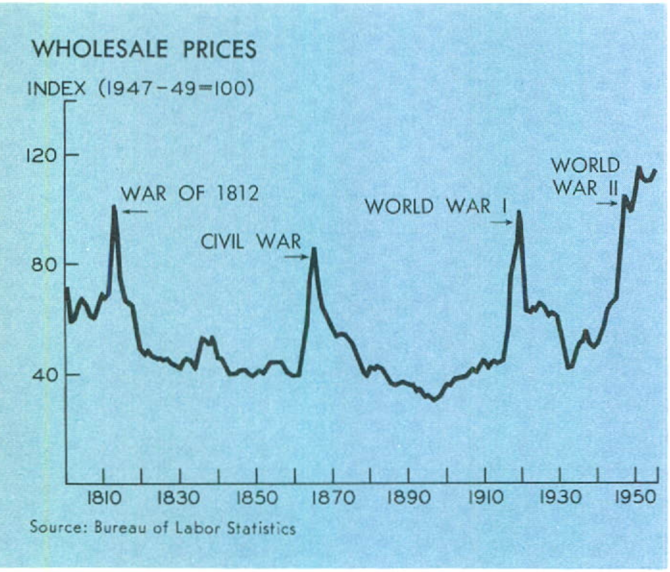
THE POSTWAR ERA

Like all eras, the postwar years have had certain definite characteristics. But unlike other postwar eras, inflation has been a dominant characteristic of the years since World War II.

Inflation

Each war in our history has brought about a tremendous rise in prices. World War II was no exception.

Within two or three years after the end of each war, except World War II, prices broke sharply. In 1921, prices were 30 per cent below the level in 1919. Prices fell 21 per cent two years after the end of the fighting between the states. The war of 1812 was followed by a price plop of 33 per cent within a two-year period. Usually, following the nose dive, prices stabilized and then for the next decade or so, fluctuated over a fairly narrow range.



Prices in this postwar period bear little resemblance to the past. They did not break sharply shortly after fighting stopped. In fact, prices didn't break at all and still haven't. The chart showing wholesale prices illustrates dramatically the differences in the periods. Unlike any other postwar era in our history, rising prices have been characteristic of recent years.

Growth and mild cyclical swings

Many are properly concerned about the inflation that has taken place over the past decade. A few are so overcome by these rising prices that they forget that the years have also been marked by business growth and the absence of serious recessions or depressions.

In 1946, gross national product was \$209 billion. By 1957 the total was \$434 billion. True, a good part of this growth was fictitious because prices are so much higher today. But even after correcting for the change in buying power, GNP is 44 per cent higher today than it was in 1946.

Since dollar measures are distorted by price changes, turn to physical output. Our steel makers had the capacity to produce 92 million tons of steel in 1946. By 1952, capacity operations could have brought forth 109 million tons, and this past year 133 million tons.

It would be easy to tick off totals on the number of houses, automobiles, television sets, washing machines, dryers, air-conditioning units, etc. that we have produced and sold since the war. Suffice it to say that our standard of living is estimated to be 32 per cent higher today than in our most prosperous prewar year.

The growth of our economy since the war has been really remarkable. Perhaps even more remarkable is the fact that this growth has been relatively uninterrupted.

True, the business cycle is not obsolete. Recessionary tendencies have dominated the business scene from time to time as in 1949 and 1954. But always the tremendous growth momentum has been sufficient to override these mild contractions.

THE BASIC FORCES

So far, all that we have done has been to discuss briefly and broadly the general characteristics of the postwar years. Characteristics are important. They are what we remember eras by. But how much more interesting it is to speculate about the basic forces and the derived forces that made the era what it was.

It is obvious to everyone that a most basic force propelling the postwar era was the war itself. Not so obvious but probably another important basic force was the Great Depression.

World War II

It's difficult to know where to begin. World War II had such a gigantic effect on everyone who lived through it or even those born after it.

Perhaps it is possible to say broadly that World War II scooped out huge voids—almost vacuums—and conversely filled to overflowing other pockets. Producing weapons for war was a tremendous job. It was not possible to add this on to normal civilian goods production. Something had to give—production of civilian goods. Only a very few non-essential factories, civilian automobiles, houses, refrigerators, radios, washing machines, shoes, nylons, and spare ribs, among other things, could be produced for sale.

This was one side of it. On the other side, money and jobs were superabundant. American industry was called on to supply itself and its allies with war goods and food. What a job this was, especially with our labor force thinned by the 11 million or so in the armed forces. High wages, overtime, and patriotism were used to lure the overaged and the too young into the employment picture.

The situation was loaded with inflationary potential, especially since the war was not paid for from current taxes and it was decided to check inflation with price controls and rationing. These measures could not cure the inflation virus. They were "stop gaps."

If the situation was loaded with inflationary potential, it was also loaded with potential for growth. The war effort, because it scooped out huge voids in civilian output and simultaneously filled pocketbooks, created a tremendous desire for capital assets and consumer goods plus providing buying power.

Imagine the "set up" facing producers and sellers in 1946. Each spending sector in the economy, except the Federal Government, had huge needs left over from the war period. Each spending sector except the Federal Government had improved considerably its liquid asset position. And finally each sector except the Federal Government began the postwar period with a relatively small volume of debt.

But this wasn't all.

The war created other voids, or near voids. One was in household formation. During the years 1941 through 1945, new household formation averaged only 400,000 per year. One big reason was that when the "boys" went overseas, the number of marriages dropped off. A slow-down in marriages caused a decline in new family formations. In addition, many families "doubled up" because husbands were away and materials for new housing weren't available.

The birth rate was lower than might have been expected during the war years. Fewer marriages and husbands overseas spelled the reason.

As a consequence, by the time the war ended we had a tremendous "backlog" of unfilled orders. Preachers and obstetricians were swamped with calls for their services. Rapid family formation and a high birth rate, of course, heightened growth potential and intensified inflationary pressures in the postwar period.

The war filled to overflowing other pockets, too. We were filled up with saving, controls, scarcities, and the drabness of wartime living. We were tired of hearing about the sacrifices that had to be made. People were in the mood for bursting their bounds and cashing their bonds. "We deserve a fling," was the pervasive feeling. That feeling didn't hinder inflation.

The Great Depression Psychosis

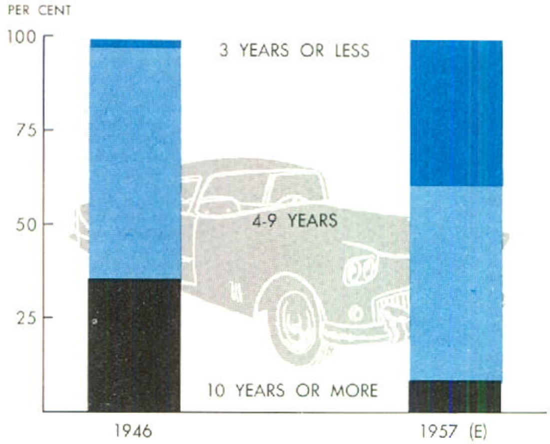
Naturally the war years had most immediate and dramatic impact on the postwar era. Their stamp was vivid and indelible. Not so vivid, but perhaps just as indelible an impression came from the depression of the 1930's.

To some extent the depression years augmented —maybe aggravated would be more accurate— forces coming out of the war years. This is especially true of the "voids." Cars and other consumer goods not produced in great volume during the war years could not be bought in great volume during the 1930's, because incomes were so low; so that the tremendous desire and need for these products coming from the war years were reinforced by the depression.

Household formation and birth rates, kept low by the disruptions of war, were likewise low during the depression. Unemployment and small incomes don't promote early marriages, larger families, and house buying. Doubling up—moving in with the in-laws—also was common during the depression years.

Even some of the war's overfilled pockets were complemented by the depression. Sacrifices made for patriotic reasons during the war had to be made for lack of funds during the thirties. And if living during the war years was drab, many had found the depression years even "drabber." That "we-deserve-a-fling" feeling was certainly not moderated by memories of the era preceding World War II.

AGE OF AUTOMOBILES



Source: Automobile Manufacturers Association

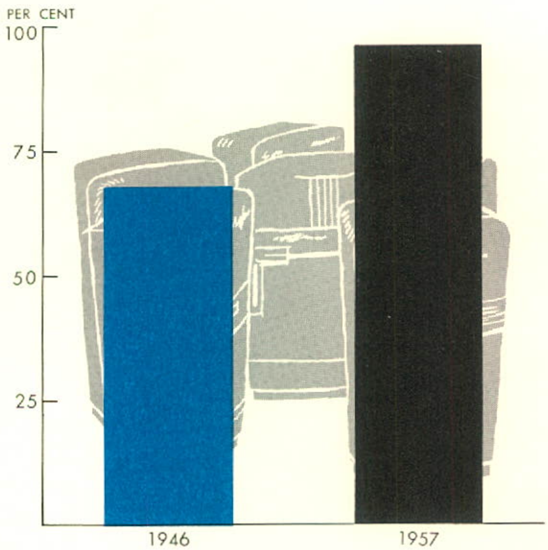
But the most indelible stamp from the Great Depression was left on the mind, the conscience, the memory of all who lived through it. Rising prices had been a goal of public policy in the 1930's. How was it possible to recognize inflation as a challenging problem in the early post-war years? "Prices will stop rising soon enough without trying to hold them down," was a feeling many couldn't shake.

In fact, the imprint of the depression was stamped on our minds so ineradicably that in the face of sharply rising prices in the early postwar years, many of our actions were antideflationary. The "Full Employment Act of 1946" to some extent reflected this perhaps paradoxical behavior. And certainly postwar support policy for Government bonds, a policy of the Treasury and Federal Reserve System, revealed fear of disturbances carrying the economy into the abyss of another depression.

AN ERA ENDS

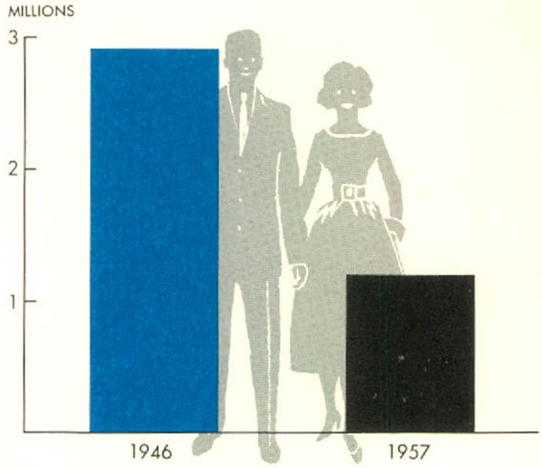
The postwar era didn't end suddenly in 1957. It has ended slowly and gradually. Some felt as early as 1948-49 that forces growing out of World War II were no longer dominant. Business spending dropped off sharply at that time. Consumer demand, however, pushed on to higher ground. Even before fighting broke out in Korea it was apparent that momentum had been regained. The well springs of that momentum were the voids and over-filled pockets of the depression and war periods.

ELECTRIC REFRIGERATORS
(Per cent of wired homes)



Source: Electrical Merchandising

COMBINED HOUSEHOLDS



Source: Bureau of the Census

Undoubtedly the Korean fighting prolonged the postwar period. Higher totals for defense spending and the attendant reimposition of some wartime controls "redug" some voids and replenished some over-filled pockets. As a result, the boom in consumer spending in 1955 and business spending in 1956 assumed the same general characteristics as earlier postwar spending surges.

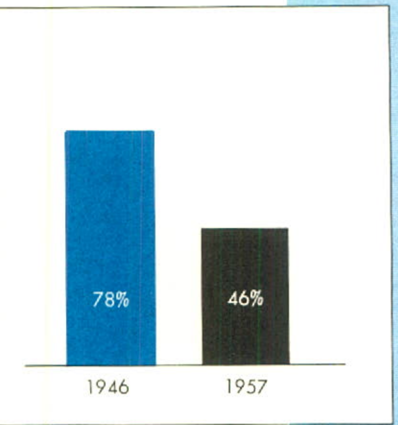
By now, however, some fundamental changes seem to have taken place. To be sure, some postwar characteristics are still with us. Prices rose for many months in 1957. But even inflation seems different—it was labeled the "new inflation" by many.

Certainly the basic forces "driving" the economy seemed to be changing. The charts tell this story.

In general these three charts indicate that the voids have been filled. The near dearth in production of all but war goods before 1946 has been

COMMERCIAL BANK LIQUIDITY

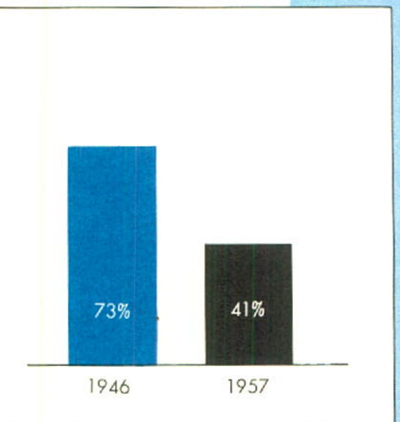
(Cash and Governments as a percentage of assets)



Source: Board of Governors

CORPORATE LIQUIDITY

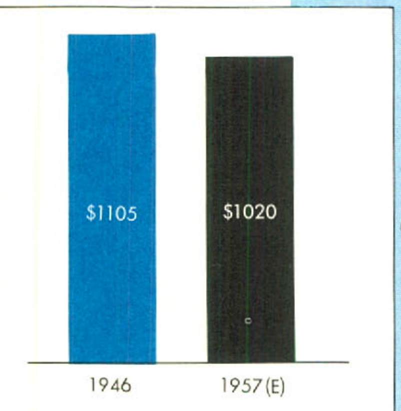
(Cash and Governments as a percentage of total current liabilities)



Source: Securities and Exchange Commission

SAVINGS

(Per person in 1956 dollars)



Source: Board of Governors

replaced by a near plethora in the years since. As a result, strong demand pressures for these products stemming from actual needs have been replaced by still strong but somewhat more tenuous demand pressures stemming from desire.

The three charts on this page tell us that in the process of filling the voids, some over-filled pockets have been drawn down. Despite very high incomes, probably all the major spending groups have used up liquidity since the war. In addition, liquidity ratios of the commercial banking system and other lending institutions are considerably lower than in 1946.

Higher debt totals, as revealed in the final charts, are additional reminders that "a whole lot of spending has been going on." The debt burden of all the major spending groups except the Federal Government has increased considerably.

The fact is that the very passing of a number of years with new characteristics and experiences makes change inevitable. Now our most vivid memories are of the postwar years themselves. The postwar era may not be over yet, but it is probably dead enough to talk about in the past tense.

THE NEXT ERA

What will the next era be like?

Of course, no one knows. There are some things we do know however. We know what the postwar period itself has been like and we know that these years are now our most vivid memory. We know too that forces having their origin in the war and depression periods shaped the characteristics of the postwar era. It's likely that the postwar years will provide forces helping to shape the next era.

"What will the next era be like?" is probably too big a question to pose in one piece. Perhaps in groping toward an answer, it might be helpful to subdivide it a bit. "Will the next economic era have the same general characteristics as the post-war era—will it be as inflationary, will it show growth without serious and protracted setbacks?"

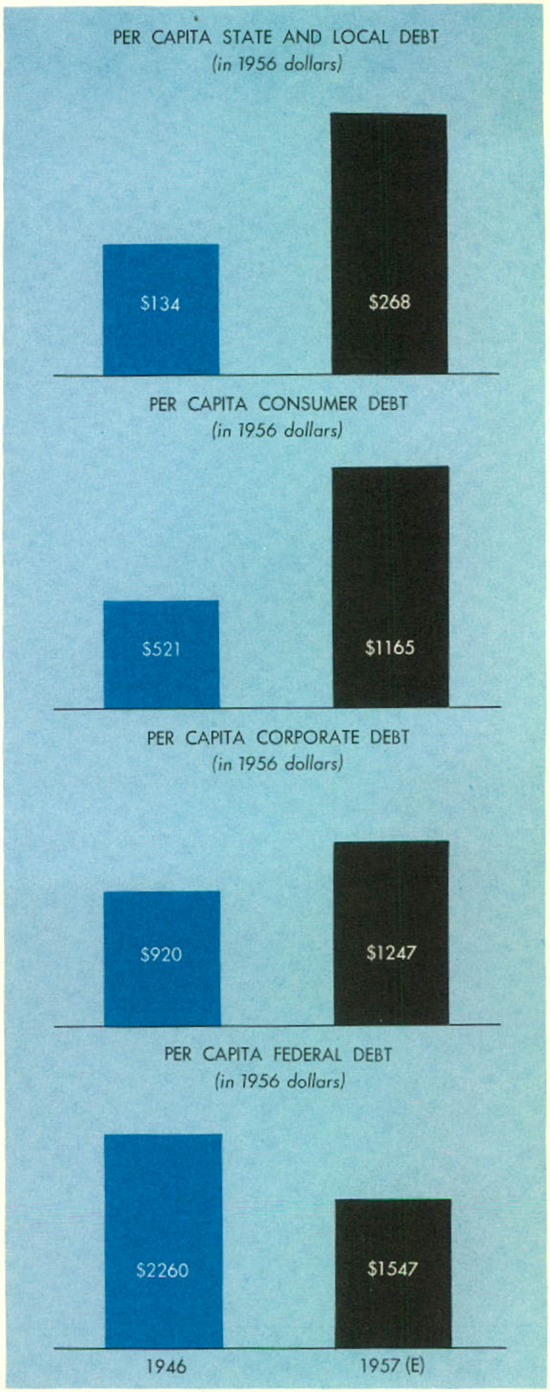
Inflation?

In the years from 1946 through 1957, consumer prices rose 44 per cent, or an average of 3⅜ per cent a year. Many say that this creeping inflation is a permanent part of our modern economic system. For example, recently it was reported that a large number of economists said that inflation would be the number one economic problem for the next 20 years.

Very probably, inflation would have been named by only a very small minority in 1946 if a similar poll had been taken. This turnabout in thinking is dramatic evidence that not the least of the forces operating in the next era will be the fact that many expect inflation.

Some say this will assure and aggravate rising prices, because businessmen, consumers, and governments will rush to buy—to wait means to pay a higher price. Others point out that the expectation of deflation in 1946 didn't prevent inflation. In fact, anticipation of deflation was probably one big reason why practically everyone was slow to recognize inflation as a challenging problem. Now our guard is up. We are much more likely to deal with the problem of inflation realistically and effectively.

Some would say that whatever inflation we may have in the next era will be like the price rises in early 1957, when demands for many products seemed to be levelling or even declining, but prices kept rising. It is conceded that demand pressures may not be so strong as in the recent past. On the other hand, it is remembered that we have built some inflationary biases into our economy since the war. The argument rests on the idea that persistently rising prices follow inevit-



Source: Department of Commerce

ably from our present combination of corporate concentration, union labor power, an elastic money system, and the fullness of employment that society demands.

Growth?

Our economy needs growth. Each year our population grows. Each year productive efficiency tends to rise. To absorb the new workers and to buy the additional goods, total business activity has to rise.

Since 1946, gross national product has increased by 133 billion real 1957 dollars, or 44 per cent. That's an average of 3⅜ per cent a year. This rate of growth is good, yet not so spectacular as sometimes said. For the period from 1909 to 1945 it is estimated that the economy grew at an average rate of nearly 3.2 per cent a year. In historical perspective, therefore, equalling the growth rate of the postwar period in the era ahead doesn't loom as such a stupendous task as sometimes assumed.

Still, we know that many ingredients of expansion are missing: (1) War-created shortages of homes, cars, appliances, etc., have been filled. (2) The age composition of our population is such that family formation is taking place at a much slower rate than in the earlier postwar years. (3) Our capacity to produce is more adequate in terms of current and foreseeable requirements.

Because of these factors the concept of an "interim" or "interboom" period has taken hold. It says that 1957 was the first year of a series of interboom years that will extend at least into the early 1960's. These "interboom" years will be characterized by noticeably slower growth in business activity.

It sounds plausible. But if you examine the factors upon which this concept stands, you can't help but wonder.

Admitted that homes, cars, television sets, and some other business "bellwethers" are no longer in short supply. Does this mean that business growth is to be stunted? Isn't it possible that new household formation, plus replacement business, will cause the demand for these products to do no worse than hold at high levels? Then how about products for which desire is growing and will continue to grow as our standard of living rises? Dishwashers, air conditioners, hi-fi sets, outboard motors, and swimming pools, all seem on the threshold of breaking into the mass market.

Think of the voids we've filled. In the filling we've created new yawning cavities. Automobiles, there are now 56 million of them—so many that just about every large metropolitan area in the nation has hardening of its traffic arteries. Housing, we've built 13 million units since 1946. New developments are all around us. But what about water and sewage facilities? In general, they haven't kept pace. Appliances—they're all over the house. And they are complicated. Who fixes them when they falter? Try and find out. Whoever it is, we need a lot more of him.

Admitted, too, that the age composition of our population is such that family formation won't be as high as in earlier postwar years. But the age composition also suggests tremendous needs. The number of school-age children is increasing much more rapidly than facilities for teaching them. We need more schools and more teachers.

The age composition—more youngsters and oldsters—puts pressure on medical facilities. Hospitals and sanitariums are over crowded. Doctors' offices hang out the "standing room only" sign early.

And finally, what about the point that our capacity to produce seems much more adequate in terms of current and foreseeable requirements?

True, capacity in many industries seems more adequate than heretofore in the postwar period. But this seems particularly so because we instinctively think of houses, cars, television sets, and other postwar "boomers." The changing nature of demand assures us that capacity is inadequate in other lines. For example, do we have adequate capacity in universities, water facilities, and peopled satellites?

What this all seems to mean is that the concept of the interboom era is built upon static assumptions. It says "war-created voids have been filled," but it never notices voids created during the postwar period.

Cyclical disturbances?

One of the real blessings of the postwar period was the absence of serious and protracted business downturns. Will the era ahead be similarly blessed? In recent years, two dramatically different schools of thought have butted heads on this question. Some say our modern economic system is so recession proof that we can never have more of a setback than the 1954 variety. But just as adamant—though possibly not so numerous—are those who say a "haircurling" depression is a very real possibility.

"Recession proofers" talk mostly about the large swath that Government cuts in our business system. "How can we have a really serious recession so long as Government spending stays high and remains ready to go even higher in the event of severe business distress?" they wonder. Flexible credit policy, built-in stabilizers, and the increased size and diversity of our economy are also talking points for this school of thought.

"Haircurlers," on the other hand, say that creeping inflation creates and has created serious distortions within our economic system. These distortions will plague us until removed. If inflation continues, distortions will worsen and a serious recession is a distinct probability.

There is much to be said for both arguments. Certainly, Government spending is huge and must be counted as a powerful prop under the economy. Still, the three sectors of our economy which have displayed the most instability historically—private construction activity, producers' durable equipment, and consumer durable goods—comprise about the same proportion of the gross national product as in 1929.

Perhaps a position somewhere in between the "recession proofers" and the "haircurlers" is appropriate.

A CONCLUSION OF SORTS

Postwar years have been good years for most Americans. Jobs have been plentiful, income high, new products have made living easier, pleasanter. There have been some problems, too, such as creeping inflation and high taxes. But on the whole, most of us don't like to think of the postwar era in the past tense.

Yet it seems that the basic forces driving our economy are changing. Depression and war-created shortages have disappeared. Ugly memories have been crowded out by more pleasant ones.

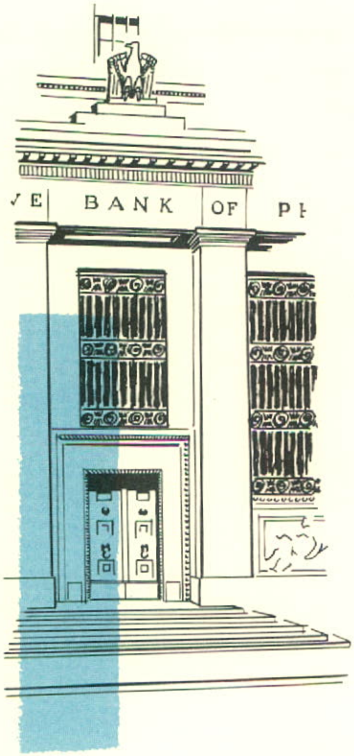
At the moment, however, many are looking at the current situation and forecasting an "interboom" period ahead—a period characterized by much slower growth in output and income, and persistent inflation, not because demand is excessive but because costs will push prices higher. There will be no really severe depression but unemployment will be higher, on the average, than in the postwar period.

This all could be an accurate forecast. But it seems to be based on static assumptions. It seems to say houses, cars, and television sets, are no longer "needed"; so what are people going to buy? New family formation is to proceed at a slower pace; so why should our industrial base grow?

In other words, the "interboom thesis" seems to forecast in terms of the past—but only part of the past. It is clear that houses, cars, and television sets are no longer "needed" in the same sense as in early postwar years. But schools, highways, water and sewage facilities, and missiles are "needed." It is equally true that the age structure of our population suggests a lower level of family formation. But the birth rate is high and promises to stay there.

What this all seems to mean is that voids were created during the postwar years, just as during the war years. True, they are different voids, the filling of which may not come about so naturally. But they exist, and needs beget spending and production.

It is altogether probable that the next era will be different from the postwar era. Certainly a lot of changes have taken place. However, it is questionable whether the next several years will form an era of stunted growth. The bases for growth have changed, but they could prove to be just as strong.



OPERATIONS OF THE BANK: 1957 VS. 1941

Over the sweep of years from prewar 1941 to postwar 1957 many things have happened to shape the operations of the Reserve Bank and the banking and business world it serves. Two wars, one world-wide; expanding population; new products and new desires; new skills and new plants—all of these have been at work. Looking back over this era of amazing developments, it becomes pertinent to review the ways in which this Bank has fitted itself into the scheme of things, apart from its activities in the major sphere of monetary and credit policy.

Uppermost in our minds at all times must be the need for continuing improvement in operating efficiency and the maintenance of over-all flexibility to meet changing and unusual demands. Uppermost, too, must be the urge to render the best possible service to the banking system and to the Treasury and, through them, to the public. In achieving these objectives, the means through which they may be accomplished—methods, equipment, and people—must continually be reviewed.

Measured in units or in dollars, operations of the Bank far exceed those in the period before World War II, but the number of people on its staff has risen by only one-fourth, from about 800 at the opening of 1941 to approximately 1,000 at the close of 1957.

EXPEDITING CHECK COLLECTION

A sharp contrast between expansion in volume handled and personnel is shown in the collection of checks. In 1957 approximately 2,700 checks per employe were handled on each working day, as against 1,900 a decade earlier and 1,600 two decades ago, when daily working hours were longer. Improvement in equipment was one of the principal means of achieving this gain in efficiency. The adding machine and sorting bin gave way to proof machines which add and sort at the same time; in turn, the "24-pocket" proof machine gave way to machines with 32 pockets or sorts. A shift from alphabetic to numeric sorting was an additional factor contributing to productivity. Over the years from 1940 to 1957 improvements also were made in services to banks. A motor carrier pick-up service, initiated in 1951 and now reaching over 400 banks in this District, saves one day in collection time; the use of air transport, developed in 1950, speeds the interdistrict collection of checks; and the increasing volume of checks sent directly by member banks to Reserve Banks in other districts has a like effect.

MOVING FUNDS BY WIRE

Transfers of funds over leased wires have shown extraordinary growth, as banks engaged more actively in Federal funds transactions for the adjustment of reserve positions and business men became increasingly aware of the advantages in nearly instantaneous shifting of funds. The increasing burden of this operation was met late in 1955 on a System-wide basis by switching from coded messages to clear-language transmission on a closed circuit, tele-typewriter system that prints all required forms. Similar arrangements between large city banks and this Bank were initiated in 1957. A like method also is now being followed in connection with certain purchases and sales of United States Government securities, which involve interdistrict transactions.

FACILITATING HANDLING OF CURRENCY

Improved equipment for handling currency and coin has been installed from time to time, but the principal gains in this field have been of a different kind. The direct exchange of coin between commercial banks has been encouraged and tends to cut down the work here. Another development, more far-reaching in its effect, was the enactment of legislation in 1954 permitting a Reserve Bank to pay out the notes of other Reserve Banks. This made possible substantial savings in transportation costs and a material reduction in the sorting operations of the Cash Department. And yet another has been rapid expansion over the past decade in armored-car pick-up and delivery of currency and coin, now reaching 329 banking offices in the District. It is estimated that 70 per cent of the cash shipments to banks outside Philadelphia are handled in this way. This service has a strong appeal to banks, providing door-to-door service and minimizing the difficulties arising from curtailment of train service and postal restrictions on shipments.

WIDER USE OF PUNCH CARDS

Many of the internal improvements in this Bank's operations are tied in with the increased use of punch-card equipment. In 1940 no "machine tabulating" department was to be found in the list of departments, although a few small installations of such equipment were in use. Today we have, in one centralized department, 34 pieces of this equipment and others elsewhere, and thought is being given to the later acquisition of even more flexible electronic equipment with "memories," etc.

"Machine Tab" now serves, as a matter of daily, monthly, or occasional practice, most of the departments of the Bank concerned with records or reports. Step by step, certain operations have been placed on punch cards—notices of checks on which credit is deferred and accounting entries arising out of wire and group clearings, to mention a few. Climaxing the planning and experimentation, the entire maintenance of member bank reserve accounts and preparation of the daily reports that go out to the banks was transferred to punch cards at the beginning of 1955. This effected savings here and provided the banks with better, more informative reports of the many transactions that affect their balances every day.

Many other operations are now being handled by the Machine Tabulating Department, replacing in many cases manual or partially mechanized methods followed previously. Among these are payroll accounting, which had become quite complex because of the numerous deductions involved; accounting work pertaining to Federal taxes; records and advices in connection with Treasury tax and loan accounts at commercial banks; and the maintenance of records, the accounting, and the preparation of advices and lists in connection with securities held in safekeeping and maturing coupons on such securities.

FLEXIBILITY IN OPERATIONS

Flexibility is essential in a central banking organization. No greater test of this can be made than the ability to respond to the extraordinary demands imposed by a conflict of the magnitude of World War II. These demands were met, although they involved the handling of many millions of pieces in connection with the issue, exchange and redemption of securities; participation in frequent war loan drives; and the exercise of assigned powers such as the regulation of consumer credit and control of foreign funds. Volume contracted with the passing of war, but the heritage of debt and defense expenditures continues to give rise to transactions on a scale far exceeding those in the prewar period. Over the years many improvements have been instituted in the handling of Savings bonds, including the use of punch cards for the processing of stubs; machines for addressing and for inserting and sealing; as well as microfilming.

Not all of the new activities now carried on for the Federal Government have their roots in war and its after-effects. In 1950 accounting work in connection with withheld taxes was taken on and in 1951 the processing of postal money orders; in 1953 the local verification and destruction of unfit United States notes and silver certificates were turned over to the Reserve Banks; and, in 1954, proving and accounting for receipts from postmasters. The "cold war" has its problems, resulting in the establishment of security files at an interior point and careful planning for action to be taken in case of emergency.

THE HUMAN SIDE

In an organization so diverse in its operations as a Federal Reserve Bank, machines alone cannot do the job and the "push button" technique has only limited application. A well-trained staff, suitably housed, must accompany the latest in equipment. The Bank is fortunate in having an experienced staff; at the close of the year, 216 of its 1,000 people had served 25 years or more. Training programs and increasing attention to the orientation of new employes contribute to proficiency and employe understanding.

Several steps have been taken over the past decade or more which affect personnel very directly. In 1947 a carefully worked out job evaluation system was put into effect, to assure the equitable determination of salaries; improvements in the retirement system have been instituted; recreational facilities have been expanded and opportunities given for individual creativeness through after-hours participation in such activities as a camera club, an art class, and a chorus. And, too, a more extensive plan for the encouragement of higher education was developed, with reimbursement for college tuition. By incorporating basic information on employes on punch cards, we have a ready source to which to turn for the study of individuals for transfer, promotion, etc. Working conditions were improved through modernization of the building, the installation of air conditioning and electronically controlled elevators, and better lighting.

Looking toward the provision of well-equipped personnel for the banking world, a trainee program was instituted in 1947. Outstanding graduates of colleges in this area are selected each year and given two years of training. They work in all major departments of the Bank and take graduate courses during their stay here, but incur no obligation to enter our employ after their work has been completed.

RELATIONS WITH THE PUBLIC

We are convinced that understanding of Federal Reserve operations and policy decisions by bankers and the general public can do much to promote the successful functioning of the System. For years this Bank had sought to achieve this understanding through a program of visits to individual banks; semi-annual meetings of the Federal Reserve Relations Committee, composed of representatives of banking organizations in this District; the distribution of economic information and pamphlets relating to Reserve Bank operations and policies; and in other ways. In 1946 steps were taken to broaden these contacts. Beginning in that year, sectional meetings have been held covering the entire District in the course of a year, where members of the staff discuss business and banking conditions, Federal Reserve policy, and related matters. Representatives of all banks in each area are invited to these meetings, with increasing emphasis in later years on attendance by bank directors. In two years—1951 and 1954—the arrangement was reversed by inviting the bankers to come to this Bank, meet together, and get a first-hand view of operations here.

A Reserve Bank by its very nature cannot avoid living in the spotlight. More and more, the public wants to know what it is and what it does. Many requests come to us from educational institutions and responsible organizations for speakers, films or exhibits, and tours of the Bank, and demand continues heavy for published information about the System.

* * *

In a recent publication the postwar years were described as an age of miracles. There have been miracles in many lines—in the fields of medicine, electronics, aviation, machinery, among others. This Bank has striven to keep in step, adapting new ideas and new developments to its operations and striving to make them really effective through a well-rounded, efficient organization.

DIRECTORS AND OFFICERS

Elections held in the fall of the year resulted in the election of William B. Brosius, President of the National Bank of Chester County and Trust Company, West Chester, Pennsylvania, as a Class A director to represent the banks in Group 2. He succeeds W. Elbridge Brown and will serve for a term of three years from January 1, 1958. The banks in Group 3 re-elected Bayard L. England as a Class B director for a like term.

By action of the Board of Governors of the Federal Reserve System, Henderson Supplee, Jr., will serve as Chairman of the Board and Federal Reserve Agent for the year 1958, and Lester V. Chandler as Deputy Chairman. William J. Meinel, the outgoing Chairman, had been on the Board of this Bank for 11 years, initially as a Class B director and then as Class C. Walter E. Hoadley, Jr., Treasurer of the Armstrong Cork Company, Lancaster, Pennsylvania, was appointed a Class C director to serve for a three-year term beginning January 1958.

The Board of Directors of the Bank appointed Casimir A. Sienkiewicz, President of the Central-Penn National Bank of Philadelphia, to represent the Third Federal Reserve District on the Federal Advisory Council during 1958. He succeeds William R. K. Mitchell.

As of the beginning of 1958, R. G. Wilgus, previously Cashier and Assistant Secretary, was made Vice President and Secretary and George J. Lavin, an Assistant Vice President, adds to his duties by appointment as an Assistant Secretary. John R. Bunting, Jr., an Associate Economist, was made an officer of the Bank with the title of Business Economist.

DIRECTORS AS OF JANUARY 1958

Group		Term expires December 31
	CLASS A	
1	GEOFFREY S. SMITH President, Girard Trust Corn Exchange Bank, Philadelphia, Pennsylvania	1959
2	WILLIAM B. BROSIUS President, National Bank of Chester County & Trust Company, West Chester, Pennsylvania	1960
3	LINDLEY S. HURFF President and Trust Officer, The First National Bank of Milton, Milton, Pennsylvania	1958
	CLASS B	
1	CHARLES E. OAKES Chairman of the Board, Pennsylvania Power & Light Company, Allentown, Pennsylvania	1958
2	R. RUSSELL PIPPIN Treasurer, E. I. du Pont de Nemours & Company, Wilmington, Delaware	1959
3	BAYARD L. ENGLAND President, Atlantic City Electric Company Atlantic City, New Jersey	1960
	CLASS C	
	HENDERSON SUPPLEE, JR., Chairman President, The Atlantic Refining Company, Philadelphia, Pennsylvania	1958
	LESTER V. CHANDLER, Deputy Chairman Professor of Economics, Princeton University, Princeton, New Jersey	1959
	WALTER E. HOADLEY, JR. Treasurer, Armstrong Cork Company, Lancaster, Pennsylvania	1960

OFFICERS AS OF JANUARY 1958

ALFRED H. WILLIAMS
President

W. J. DAVIS
First Vice President

KARL R. BOPP
Vice President

ROBERT N. HILKERT
Vice President

ERNEST C. HILL
Vice President

WILLIAM G. McCREEDY
Vice President

PHILIP M. POORMAN
Vice President

JAMES V. VERGARI
Vice President and General Counsel

RICHARD G. WILGUS
Vice President and Secretary

JOSEPH R. CAMPBELL
Assistant Vice President

WALLACE M. CATANACH
Assistant Vice President

NORMAN G. DASH
Assistant Vice President

GEORGE J. LAVIN
Assistant Vice President and
Assistant Secretary

HARRY W. ROEDER
Assistant Vice President

EVAN B. ALDERFER
Industrial Economist

CLAY J. ANDERSON
Financial Economist

JOHN R. BUNTING, JR.
Business Economist

DAVID P. EASTBURN
Financial Economist

MURDOCH K. GOODWIN
Assistant General Counsel
and Assistant Secretary

EDWARD A. AFF
Assistant Cashier

HUGH BARRIE
Machine Methods Officer

ZELL G. FENNER
Chief Examiner

RALPH E. HAAS
Assistant Cashier

ROY HETHERINGTON
Assistant Cashier

FRED A. MURRAY
Director of Plant

HENRY J. NELSON
Assistant Cashier

RUSSELL P. SUDDERS
Assistant Cashier

HERMAN B. HAFFNER
General Auditor

STATEMENT OF CONDITION

FEDERAL RESERVE BANK OF PHILADELPHIA

(000's omitted in dollar figures)	End of Year 1957	1956	1955
ASSETS			
Gold certificate reserves:			
Gold certificates	$1,182,730	$1,051,274	$1,105,726
Redemption fund—Fed. Res. notes	60,901	63,053	61,738
Total gold certificate reserves	$1,243,631	$1,114,327	$1,167,464
Fed. Res. notes of other Fed. Res. Banks	38,556	35,132	37,672
Other cash	15,057	13,116	16,770
Loans and securities:			
Discounts and advances	5,490	7,975	26,928
Industrial loans	173	439	642
United States Government securities	1,384,545	1,478,817	1,484,488
Total loans and securities	$1,390,208	$1,487,231	$1,512,058
Due from foreign banks	1	2	2
Uncollected items	345,425	405,812	327,844
Bank premises	4,513	4,781	5,050
All other assets	12,740	14,885	9,264
Total assets	$3,050,131	$3,075,286	$3,076,124
LIABILITIES			
Federal Reserve notes	$1,738,756	$1,756,490	$1,839,889
Deposits:			
Member bank reserve accounts	874,740	859,677	868,455
United States Government	30,221	27,841	22,008
Foreign	23,870	21,312	28,178
Other deposits	12,955	16,865	15,458
Total deposits	$ 941,786	$ 925,695	$ 934,099
Deferred availability items	279,334	306,868	219,651
All other liabilities	623	800	751
Total liabilities	$2,960,499	$2,989,853	$2,994,390
CAPITAL ACCOUNTS			
Capital paid in	$ 21,192	$ 20,629	$ 19,757
Surplus—Section 7	55,923	52,301	49,490
Surplus—Section 13b	4,489	4,489	4,489
Reserves for contingencies	8,028	8,014	7,998
Total liabilities and capital accounts	$3,050,131	$3,075,286	$3,076,124
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined	46.4%	41.5%	42.1%
Commitments to make industrial advances	$26	$15	$41

EARNINGS AND EXPENSES

FEDERAL RESERVE BANK OF PHILADELPHIA

(000's omitted)	1957	1956	1955
Earnings from:			
U. S. Government securities	$43,036	$34,351	$24,212
Other sources	2,172	1,940	990
Total earnings	$45,208	$36,291	$25,202
Net expenses:			
Operating expenses*	$ 6,494	$ 6,294	$ 6,170
Cost of Federal Reserve currency.......	211	293	365
Assessment for expenses of Board of Governors	528	383	306
Total net expenses	$ 7,233	$ 6,970	$ 6,841
Current net earnings	$37,975	$29,321	$18,361
Additions to current net earnings:			
Profits on sales of U. S. Government securities (net)	$ 10	$ 16	$ —
Reimbursement for Fiscal Agency expense incurred in prior years.....	113	—	—
All other	—	—	—
Total additions	$ 123	$ 17	$ —
Deductions from current net earnings:			
Reserves for contingencies	$ 14	$ 16	$ 18
Retirement System (adjustment for revised benefits)	604	—	—
All other	1	—	—
Total deductions	$ 619	$ 17	$ 18
Net additions or deductions (—)	$ —496	$ —	$ —18
Net earnings before payments to U. S. Treasury	$37,479	$29,321	$18,343
Paid to U. S. Treasury (interest on Federal Reserve notes)	32,594	25,296	15,457
Dividends	1,263	1,215	1,169
Transferred to Surplus (Section 7).........	$ 3,622	$ 2,811	$ 1,717

* After deducting reimbursements received for certain fiscal agency and other expenses.

VOLUME OF OPERATIONS

FEDERAL RESERVE BANK OF PHILADELPHIA

	1957	1956	1955
Number of pieces (000's omitted)			
Collections:			
Ordinary checks	162,800	163,100	161,500
Government checks (paper and cards)	46,600	44,200	41,400
Postal money orders (card)	21,900	23,600	23,400
Non-cash items	1,000	1,000	900
Clearing operations in connection with direct sendings and wire and group clearings plans*	864	940	1,022
Transfers of funds	115	106	96
Currency counted	314,600	304,900	291,200
Coins counted	425,000	395,900	389,700
Discounts and advances to member banks	2	3	2
Depositary receipts for withheld taxes	496	463	440
Postal deposits (remittances)	423	462	447
Fiscal agency activities:			
Marketable securities delivered or redeemed	345	213	220
Savings bond transactions— (Federal Reserve Bank and agents)			
Issues (including re-issues)	8,944	7,909	7,217
Redemptions	7,461	6,548	6,616
Coupons redeemed (Government and agencies)	906	789	875
Dollar amounts (000,000's omitted)			
Collections:			
Ordinary checks	$63,206	$60,927	$55,288
Government checks (paper and card)	5,876	6,970	6,733
Postal money orders (card)	337	346	337
Non-cash items	156	190	194
Clearing operations in connection with direct sendings and wire and group clearings plans*	31,194	30,793	27,926
Transfers of funds	49,315	49,524	44,346
Currency counted	2,120	2,049	1,903
Coins counted	45	44	51
Discounts and advances to member banks	11,903	11,731	6,926
Depositary receipts for withheld taxes	1,799	1,619	1,424
Postal deposits (remittances)	870	819	668
Fiscal agency activities:			
Marketable securities delivered or redeemed	10,798	8,035	8,531
Savings bond transactions— (Federal Reserve Bank and agents)			
Issues (including re-issues)	444	467	497
Redemptions	620	521	461
Coupons redeemed (Government and agencies)	101	93	98

* Debit and credit items.

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upon request to the Department of Research,

Federal Reserve Bank of Philadelphia,

Philadelphia 1, Pa.